

1 BEFORE THE
2 NATIONAL PETROLEUM COUNCIL
3 TRANSCRIPT OF PROCEEDINGS
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111th ANNUAL FULL COUNCIL MEETING
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15 May 2003
Washington, D.C., USA
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5 Associates
6 HENRY ZARROW Vice Chair
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By William A. Wise

Committee Chair

31

By Jerry J. Langdon

Coordinating Subcommittee Chair

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By William A. Wise

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DISCUSSION OF ANY OTHER BUSINESS

ADJOURNMENT

1 BEFORE THE
2 NATIONAL PETROLEUM COUNCIL
3 111th ANNUAL FULL COUNCIL MEETING

4 Meeting was held pursuant to Notice and
5 Invitation at the Crystal Ballroom, The St. Regis
6 Hotel, 923 Sixteenth at K Streets, Washington, D.C.,
7 USA, on the 16th day of May, 2003, at 8:59 a.m. ET.

8 TRANSCRIPT OF PROCEEDINGS

9 MR. WISE: Morning, everyone. I'm calling
10 the 111 meeting of the National Petroleum Council to
11 order.

12 Members of the Council, I guess members of
13 the press and public, we welcome you all today. I
14 think we'll have an interesting, worthwhile session.

15 There's a check-in room across the room,
16 the chandelier in the hall, Chandelier Room in the
17 hall, and that's our official attendance record. Any
18 of you who have not registered in the official record,
19 I'd appreciate it if you'd do so.

20 Before we get started I'd like to introduce
21 the, the front table. Here on my far left is Lee
22 Raymond. He's the Vice Chair for Supply of the Natural
23 Gas Study.

24 Next to Lee is Bob Catell. He's the Vice
25 Chair for Demand of the study.

1 Next to Bob is Kyle McSlarrow. He's the
2 Deputy Secretary of Energy.

3 Far right is Marshall Nichols, Executive
4 Director of the Council.

5 Next to Marshall is, is Mike Smith,
6 Assistant Secretary for Fossil Energy, Department of
7 Energy.

8 Next to Mike is Rich Kinder. He's the Vice
9 Chair of the Midstream for the Natural Gas Study.

10 Next to Rich is Bobby Shackouls. He's the
11 Vice Chair of the Natural Gas Committee.

12 And on my immediate right is Spencer
13 Abraham, Secretary of Energy.

14 And with that, having introduced the dias
15 and from the front table, I think we'll turn
16 immediately to the Secretary. And I hope you'd all
17 join me in giving him a round of applause, and inviting
18 him to speak.

19 (Whereupon, applause was had.)

20 REMARKS BY HON. E. SPENCER ABRAHAM

21 THE SECRETARY: Bill, thank you.

22 And thanks for your service and the entire
23 leadership team, Council. We appreciate it very much.

24 I have to confess, I've been -- This week
25 has been a busy week. I've had a number of speeches to

1 give, and the introductions have varied, somewhat
2 interestingly.

3 I was -- Some of you may even have attended
4 the full council meeting earlier this week at which
5 we --

6 Mr. McSlarrow.

7 -- in which the audience was actually asked
8 to stand before I spoke on the theory that inducing a
9 standing ovation would be difficult otherwise. And I
10 appreciate the removal of the uncertainty from the sort
11 of -- but prefer it this way.

12 Usually we have a full array of our
13 staffers in the back leading these sorts of things.
14 This wasn't large enough for our usual approach.

15 But I do want to say first of all that,
16 that we very much appreciate the service of all the
17 members of this Council and many good friends who are
18 here. And I can't tell you how important the work
19 that, that is going on right now is to us.

20 I think you recognize it, which is why we
21 really have, I think, made some excellent progress.
22 And I'll comment a little bit more specifically on the
23 study and where we go from here this morning.

24 But I want to start by just acknowledging
25 that today really is a, a rather important date for us

1 at the, at the Department of Energy, really for
2 everybody in the energy sector, because it actually
3 marks the second anniversary of the release of the, of
4 President Bush's National Energy Plan. And while it
5 may not rise to the level of a, of a federal holiday
6 in, in some quarters in the Department of Energy,
7 Undersecretary Bob Card, Undersecretary Bob Smith,
8 Deputy Secretary Kyle McSlarrow and myself and other
9 members of the Department certainly regard it as a
10 pretty important date.

11 When the President took office he
12 understood that the short- and long-term problems of
13 the, the energy in our country was difficult, and he
14 also had a long- and a short-term approach to
15 addressing those challenges. And as you know, the
16 National Energy Plan attempted to do just that.

17 It provided a very bold vision to help
18 ensure our energy security in the future. And I'm very
19 proud today to report that we have accomplished a great
20 deal in two short years.

21 We had in that plan 105 recommendations for
22 various actions to be taken by government agencies for
23 changes in policy and regulations. Ninety-six of the
24 105 recommendations are ones in which either in whole
25 or in part can be brought about through the actions of

1 the Executive Branch.

2 And virtually every one of them is moving
3 forward, many of them already to completion. There
4 remain about a dozen or so that are either partially
5 completed or can't be achieved in the absence of action
6 by the House and Senate in the passage of an Energy
7 Bill.

8 I'm very pleased that the, that the
9 Congress in this session has really moved very quickly
10 on energy. As you know, in the last Congress, that
11 didn't happen as quickly as we wanted, and the
12 legislation ended up stalled in a, the Cabinets at the
13 very end of the session.

14 The House has, and I commend them for it,
15 moved aggressively in this year, and has already passed
16 its energy Bill. The Senate, unlike the last Congress,
17 didn't wait until the second year, but took it up
18 early.

19 Senator Dominici has worked diligently and
20 should be given great credit for having moved it
21 through the Committee. Now it's on the floor of we'll
22 probably be receiving a full floor report just in the,
23 the, in the days ahead.

24 And it's an important final step in
25 bringing about the completion of the President's Energy

1 Plan. And so we look forward to working with the
2 Congress and we commend the House and Senate leadership
3 for making comprehensive energy legislation a top
4 priority.

5 As I say, when the Bill is signed into law
6 by the President it will allow us to complete most of
7 the yet unfulfilled recommendations in the National
8 Energy Plan. And it is time to get this job done.

9 I want to just express to the number of
10 people in this room our gratitude, because a lot of
11 folks have been involved in this legislative effort to
12 make sure that we keep this issue high on the agenda.

13 Today I want to focus my comments on two
14 important issues: the turbulent period we just went
15 through in the world energy markets; and what I see,
16 and I know you see, as what I feel is a looming
17 challenge with respect to natural gas. As you well
18 know, our current supplies of natural gas in
19 underground storage are unusually low due to a
20 combination of cold weather in the Northeast and
21 Mid-Atlantic regions this past winter, and declines in
22 both domestic production and net imports.

23 We had 696 billion cubic feet of gas at the
24 end of March in storage. That's the lowest, as you
25 probably are well aware, since 1976, which is when the

1 Energy Information Agency began keeping records.

2 By the week of April eleventh, levels had
3 dropped to 623 billion cubic feet. Storage has
4 increased since that time, but it's still only half the
5 level of a year ago, and 42 percent below the previous
6 average of the previous five years.

7 In order to reach the desired storage level
8 of three to three and a-half trillion cubic feet of
9 natural gas by the end of October we have to inject
10 much more storage than the average weekly average of
11 about 60 billion cubic feet. I recognize that the U.S.
12 industry is already responding by increasing injection
13 rates during what is obviously lower-demand spring
14 season, and indeed, injections increased to 72 billion
15 cubic feet for the most recent week on record.

16 The hot summer would prevent the
17 continuation of those high injection rates, and we
18 already know that increased depletion rates and less
19 productive new drilling have led to a projected
20 two-percent decrease in supply this year. A number of
21 people on the NPC have brought these concerns to my
22 attention personally, and to our team's attention, and
23 as a result I've asked the National Petroleum Council
24 to conduct to wide-ranging study on the projected state
25 of natural gas in the United States during the

1 Twenty-First Century in our last session.

2 The NPC study is forward-looking, and it
3 will address resources for capital investment, the role
4 of technology, access to our nation's resource base,
5 new sources of supply from Alaska and Canada, liquefied
6 natural gas imports, and the long-term potential of
7 unconventional resources such as methane-gas hydrates.
8 And that's just a partial list of the topics.

9 I'm very much, am very much looking forward
10 to studying the final report in September, as well as
11 to work with this Council to review and discuss its
12 recommendations. But in my view we cannot wait until
13 the late fall to take action on the more immediate
14 problems which we face, and therefore today I want to
15 request that our incoming chairman, Bobby Shackouls,
16 schedule a special June meeting of the National
17 Petroleum Council to focus on the short-term challenges
18 which will be encountered.

19 It's my hope that such a meeting will be
20 structured to gather information, discuss problems and
21 solutions, and identify those actions that can be taken
22 immediately to begin to ease some of the short-term
23 supply constraints which I've outlined today. The
24 ideas and the suggestions which emerge from that
25 meeting can then be implemented during the critical

1 summer period.

2 Other initiatives, of course, will be
3 implemented following the release and the review of the
4 NPC Natural Gas Study later in September. I understand
5 that June is just a round the corner and I'm requesting
6 this meeting on short notice, but I do think that the
7 challenges ahead of us require us to act today.

8 So I hope you can assist us in this
9 important endeavor, and I hope that all of you will be
10 able to participate. I'm confident that we can make
11 real progress if we work together and if we build
12 strong cooperative relationships with consumers,
13 producers, industry, state and local Governments, and
14 other interested parties.

15 One reason which gives me confidence in our
16 ability to address natural gas, as well as other energy
17 challenges, stems from our experience in the world
18 energy markets over the past few months. I think most
19 energy observers would agree that by any measurement or
20 comparison, energy markets have been extraordinarily
21 strengthened during that period.

22 In early December the strike in Venezuela
23 reduced oil supplies by 2.5 million barrels a day. The
24 unusually cold winter, civil unrest in Nigeria, the
25 anticipation that built before the war with Iraq, as

1 well as the war itself actually added upward pressure
2 on the price of crude oil.

3 Obviously there have been other turbulent
4 times during the last 30 years. What I think is most
5 noteworthy about the period we just went through is
6 that world energy markets were amazingly stable, and
7 that the United States emerged from this turbulent
8 period much stronger than was the case after any other
9 recent energy crisis.

10 Just look at a few recent examples for
11 comparison. In 1973, when OPEC invoked the oil embargo
12 against the United States, prices quadrupled and the
13 United States economy suffered a recession.

14 In 1979, during the revolution in Iran and
15 the beginning of the Iran-Iraq war, prices more than
16 doubled. The the United States suffered recessions in
17 early 1980 and again in 1981.

18 And in the 1990-91 period the Iraqi
19 invasion of Kuwait obstructed 4.6 million barrels of
20 supply per day for more than three months. Prices
21 doubled, notwithstanding the release of oil from the
22 Strategic Petroleum Reserve and other reserves.

23 During the past several months, however,
24 what could have been the perfect storm in supply
25 disruptions ended up being what I think is the

1 best-managed energy crisis in recent history. And
2 actually this happened against the background of
3 predictions by some experts and various media and many
4 politicians that we'd be paying 50- to \$100 per barrel
5 for oil.

6 Happily none of the doom and gloom
7 predictions came true. Rather, the \$27 barrel was
8 pushed to around \$30 a barrel in early 2003, and then
9 briefly into the high 30s, peaking at 39.99 per barrel
10 on March thirteenth.

11 And then, as we know, once the war
12 commenced, the price quickly fell back into the 20s and
13 is basically stable. Importantly, and I think it's
14 very important, this happened without a draw-down in
15 the Strategic Petroleum Reserve.

16 Meanwhile, gasoline prices are declining,
17 and today are predicted to average \$1.46 per gallon
18 during the spring and summer driving seasons. That is
19 less than the average in the summers of 2000 and 2001.

20 What brought this about? In January, OPEC
21 announced it would increase production by 1.4 million
22 barrels a day to offset the shortfalls from the
23 Venezuela strike. As a result, OPEC production jumped
24 from an average of 25 million a day in December to an
25 average of about 27 million a day in February.

1 Then, leading up to the war in Iraq, OPEC
2 assured the world that it would increase production to
3 offset any lost production from Iraq, and that's what
4 happened. Today OPEC is producing 27 million barrels a
5 day compared to 23 million a day last year.

6 Why did this happen? I'd argue that while
7 there were a number of factors, first and foremost was
8 the success of the policy with respect to the
9 international energy markets that this Administration
10 has followed from its first days in office, the policy
11 which he referred to as "quiet diplomacy."

12 During the past two years many people have
13 questioned this approach, an approach the hallmark of
14 which is frequent communication between the United
15 States, as well as the IEA and the producer. Of
16 course, that's not new.

17 What is new is that our communications have
18 for the most part been private. We haven't issued
19 broadslides through the media or held press conferences
20 to discuss the content or the substance of our talks.

21 We haven't treated every OPEC meeting as a
22 cause for alarm or as an excuse to engage in a lot of
23 post-meeting commentary. And we haven't begged for
24 oil.

25 Instead, we've chosen a route in which we

1 exchange information and communicate effectively; not
2 just when there are meetings, but on a regular basis.
3 During times of crisis those communications with
4 producers became more frequent.

5 And that approach, coupled with the
6 availability of our reserves as a backstop in case of a
7 significant supply disruption not offset by producers,
8 has led to what I hope is a new era in producer/
9 consumer relationships. We all remember the 1970s when
10 producers used oil as a weapon against consumers in the
11 international market.

12 Turbulence in those '70s gave way to a
13 prolonged period of producer/consumer tension where
14 suspicion and mistrust often permeated international
15 energy policy. Today I hope and believe we are
16 witnessing a maturation in our relationships.

17 Communication has increased. Suspicion
18 has, I think, decreased.

19 And the result is the beginning of a new
20 understanding that recognizes the desirability of
21 stability over volatility, and of the value of strong
22 worldwide economic growth as the best environment for
23 both producers and consumers. So in sum, I believe the
24 recent period represents an important step forward in
25 the relationship between producers and consumers, one

1 of which there can be winners on all sides.

2 When President Bush took office he was
3 handed a number of energy challenges: electricity
4 shortages, high prices for gasoline and natural gas.
5 He's addressed each of those in a decisive way that has
6 become, I think, the hallmark of his administration.

7 And he addressed them not in a piecemeal
8 fashion, but by designing comprehensive long-term plans
9 to ensure our energy security for this century. The
10 quiet diplomacy in international oil markets and
11 creative solutions to our natural gas challenge are
12 part of that plan.

13 Both fit into a much larger plan that
14 addresses every aspect of our energy portfolio for
15 energy efficiency: the promises of hydrogen; the
16 potential of fusion power later in this century. So I
17 think this is an exciting time in the energy world.

18 The energy sector has contributions to make
19 that will outstrip its spectacular contributions of the
20 last century, and I want you to know at the Department
21 of Energy we appreciate all that you have done, that
22 you now are doing, and all that we know you will do to
23 ensure that those contributions will be made, and that
24 America's energy security in the Twenty-First Century
25 is preserved.

1 And so in closing I just want to thank Bill
2 and thank Bobby and all of you who take this extra time
3 to participate in helping us to keep this country's
4 energy sector in the right direction. And your counsel
5 and advice is very important.

6 And I doubt it's been more important than
7 it will be in the weeks ahead as we address a whole new
8 set of contracts. And I want to tell all of you,
9 especially those in direct contact with me, how much we
10 appreciate that continued effort, how much we value the
11 concerns you've raised, and do our best to try to
12 address those concerns at the Department.

13 Thank you very much.

14 (Whereupon, applause was had.)

15 THE CHAIR: Unfortunately the Secretary has
16 got an appointment. He doesn't have time to take
17 questions.

18 I'm sure that Deputy Secretary McSlarrow
19 will pass on to the Secretary our thanks for his
20 appearance here today.

21 Mr. Secretary, thank you very much. And
22 it's, I think it's heartening for me, particularly for
23 me, who spent my professional career in the natural gas
24 side and understand the criticality that the nation's
25 natural gas industry, from the burner tip back to the

1 wellhead, is facing right now with the kind of
2 challenges we've got with low storage and, and reduced
3 deliverability, and yet increasing demand, unique set
4 of circumstances that it's going to be very difficult
5 for this industry to deal with, to have this kind of
6 insight and, and support from the Department of Energy
7 through the, through the Secretary.

8 And Bobby, I think the idea that the
9 Secretary has expressed to do a meeting in June is a
10 good one, and one that you as the new leader of the
11 National Petroleum Council ought to take it under
12 advisement. And since you're the new Chair, we'll
13 figure you've got a way to figure out how to solve this
14 whole natural gas problem.

15 Turning the gavel over after today, we'll
16 depend on Bobby to take care of it.

17 Next order of business is to get a report
18 from the NPC Committee on Natural Gas. As the
19 Secretary indicated, we did approve last April the
20 request from the Secretary to have a new study of the
21 natural gas.

22 And in the intervening 13 months I've
23 personally become even more convinced, as we were
24 talking about earlier here, that it's a very critical
25 time to reevaluate the supply/demand balance and the

1 future of natural gas in North America. Natural gas
2 markets continue, as we all know, to be challenged with
3 numerous challenges, from the weather to structural and
4 economic uncertainties.

5 I know, as Chairman of that gas committee,
6 there's been a tremendous amount of work to complete
7 this very important study, and I'm going to call on
8 Jerry Lang-, Langdon, whose Chair of the subcommittee,
9 to report to the Committee and bring you up to date on
10 the group's progress.

11 PROGRESS REPORT ON NPC COMMITTEE ON NATURAL GAS

12 MR. LANGDON: Thank you, Bill.

13 I want to take just a moment to thank Bill
14 Wise for his service to the Council and for his
15 commitment to volunteerism, which, without that
16 volunteerism, I wouldn't have the opportunity to take
17 on this task. I've enjoyed the work, and it's been
18 very fulfilling.

19 In addition to that, as you look at this
20 head table there are some very busy people at this head
21 table who spend a lot of time running very large
22 companies and very large departments in government.
23 And I must say that I think in the past times often the
24 vice-chairs of these studies have taken on figurehead
25 type positions.

1 In this case, each of these individuals has
2 been very actively involved in the work we've been
3 doing, and have carved out, I think, a significant
4 amount of their personal time to, to listen to the work
5 and to actually feed into the process. And for that
6 we're very grateful and appreciative, and particularly,
7 Mr. Secretary, I think the time and effort that you've
8 given us as we go through this process is really an
9 evidence of how important this work is to the
10 Government.

11 And I, and we take it very, very seriously.
12 The Secretary mentioned in his opening remarks the
13 charge to the Council.

14 He, we, we received a letter, as you may
15 remember, in, in March of 2002, from the Secretary that
16 basically asked the Council to bring forward the work
17 of the Council from the 1992 and 1996 studies.
18 Specifically, in addition to the, the issues that he
19 mentioned that were part and parcel important to the,
20 to the review, he asked the Council, after it reviewed
21 that, the items that he mentioned, to, to, to give
22 advice and counsel to, to the Secretary's Office on
23 measures that industry and Government could take to
24 increase productivity and efficiency of the North
25 American natural gas market, and to, and to ensure that

1 adequate and reliable supplies of energies, energy are
2 available to consumers.

3 There's a package I think on your, on each
4 of your desks, and there are, there is an excerpt and a
5 letter, actually a copy of the Secretary's letter that
6 gives all the details of the request. To that end,
7 immediately following the meeting last year we began to
8 establish the Natural Gas Committee that, of the
9 Petroleum Council, which again Mr. Wise has chaired.

10 We began the preparation of a, of pulling
11 together the kinds of folks and the kind of resources
12 that we need to form a draft report for the Council's
13 consideration. Shortly thereafter we convened a
14 meeting to begin the process of putting together a, the
15 coordinating subcommittee to really organize the work
16 and put the, put the materials together.

17 And again in the spirit of volunteerism
18 each of these individuals at this table in turn
19 volunteered one of their key people from very, very
20 high levels, and each of the companies represented at
21 this head table, to begin that, begin that work. And I
22 must say that it was an excellent selection on
23 everybody's part.

24 We've had a, first of all, I think the
25 right kind of people doing the work. We've had the

1 right kind of disciplines involved in the, in the
2 process, and we've had a collegial group who, who all
3 take seriously our responsibilities and have moved
4 forward, I think, consistently through the process.

5 What I'd like to do is we had a very, very
6 wholesome discussion yesterday in the, with the Gas
7 Committee, where we went into significant detail about
8 where we are in the process. And the feedback that we
9 got yesterday was, I think, very, very useful, and
10 will, will help shape where we go from here in terms of
11 organizing the study and as we move into the next
12 stage.

13 But what I wanted to do today is talk
14 mostly about process, and talk about timing, to give
15 you a sense of where we are at the end of the day.
16 Obviously, with the, the committee in place, the
17 Coordinating Subcommittee began its work, and has a, in
18 our normal fashion, reported back up to the Committee
19 at the meeting yesterday.

20 We organized ourselves much the same way
21 that the past studies have been done. It's almost
22 impossible to organize differently, in that we sent out
23 everybody in what I've kind of referred to as a
24 progressive collaborative process, beginning,
25 organizing ourselves among the supply side to look at

1 the resource base, to look at the infrastructure for
2 delivery, and the demand side to consider markets and
3 those kinds of issues.

4 In the task groups for the Demand Task
5 Force for example, that Task Force is, is headed by
6 Dave Manning, who's an old friend and a (sic)
7 individual who I know has a, made great commitments to
8 this business over a long period of time. What, what
9 we typically, or what we have done in Demand Task Force
10 is organize, organized ourselves to consider economic
11 and demographic subgroups, and to, to understand more
12 about where the market is headed and what a growth
13 potential of the market is.

14 In particular, you can't look at natural
15 gas demand side without considering a power generation
16 subgroup. And to that end we've brought some very,
17 very qualified people in to take a look at that.

18 In addition, you can't consider natural gas
19 without figuring out what kind of industrial growth is,
20 is potentially out there. And for the first time ever
21 I think we've brought new individuals in under the tent
22 to give us a real understanding about what industrial,
23 what industrial markets are likely to do, considering
24 the changes in the natural gas industry that appear to
25 be coming.

1 And then lastly, probably importantly, most
2 importantly from a political standpoint, we've looked
3 at the commercial alternate and residential part of the
4 business. And to that end we also have a kind of a new
5 set of, of participant in to really give us some
6 analysis and some feedback into what, what is likely to
7 happen on the, on the residential growth for natural
8 gas in the future.

9 The Supply Task Force is headed by Mark
10 Sikkel. Mark is an individual who has had a great
11 responsibility at ExxonMobil during his career.

12 He's a, a new friend and a, and an
13 individual who I also have grown to understand is, is
14 a, tremendously committed to this process. And he has
15 done a terrific job of organizing the Supply Task Force
16 to evaluate the resources base in the United States.

17 We've taken a different, a bit, bit more of
18 a, a little bit different tack in terms of how that
19 work's being done. One of the things that was done, it
20 was to go out and really make some assumptions about
21 using a new set of data, make some assumptions about
22 what the resource base really looks like, and then Mark
23 went out through the, a series of, of regional
24 workshops all over the country, all over the United
25 States, and really in Mexico and Canada, and, and

1 tested with all these sub-, all these Working Groups or
2 these, these, the, the Working Groups or the, the, the
3 data that we have on the supply side.

4 In addition to that, we believe that LNG is
5 going to be a, a significant piece of the supply story
6 on the going-forward basis as we begin to look at the
7 work, and to that end we, we have, we pulled the, an
8 LNG subgroup together to work in the Supply Group.

9 Truthfully, that LNG Subgroup would have fit within any
10 part of the other two groups, but we decided that's
11 really more of a resource type of the business, and
12 accordingly we have it reporting back to each of the
13 Demand and Midstream pieces as well.

14 Arctic gas appears to be a major piece as
15 we go forward in terms of understanding the supply
16 picture, and to that end Mark pulled together a, an
17 Arctic Gas Transportation Subgroup to consider timing
18 of those issues.

19 Technology: One of the things that the
20 Secretary asked us to specifically look at, we have a
21 Technology Subgroup considering everything that's out
22 there and everything that might come over a 25-year
23 horizon. There are obviously many things that could be
24 considered.

25 And then we have an Environmental,

1 Regulatory, and Access Subgroup. That is a work that's
2 probably going to focus more on the, on the
3 recommendations of the '99 study, and bringing it
4 forward.

5 Scott Parker, who is not here today, -- He
6 had other issues that he had to deal with. -- has
7 chaired our Transportation Distribution Team.

8 Scott also is an old friend, and another
9 individual who I believe is very committed to this
10 opportunity to, to participate in, in this joint
11 government project. Scott organized his group among a
12 Transportation Subgroup, really looking at an
13 infrastructure, and he, really looking at the
14 availability and usefulness of the current
15 infrastructure for making long-term deliveries.

16 A Storage Subgroup, it's pretty clear that
17 storage is going to be, -- And the Secretary did not
18 gloss over that. -- storage is going to be a challenge
19 going forward, especially in this environment.

20 And, and then a Distribution Subgroup to
21 look at delivery systems into actual resident,
22 residential consumer groups. One of the things that
23 we've done a little bit differently in organizing
24 ourselves is to look at the Secretary's letter.

25 He asked us to specifically give some

1 consideration to how the markets are functioning, and
2 what, what issues, like volatility and liquidity and
3 things, are having on the marketplace. And to that end
4 -- And he also asked us to take a look at the
5 availability of capital to fund the industry on a
6 going-forward basis.

7 To that end we've formed a, a subgroup
8 below these three main groups that actually reports to
9 each of them, which we call our Financial and Markets
10 Group. John Olson is chairing that, with the able
11 assistance of Ed Gilliard at, at Burlington.

12 And we are really just beginning to get
13 some feedback from those folks, but I think they have
14 a, a great contribution to make to the study.

15 And then lastly, one thing we're doing a
16 little differently this time than we've done in the
17 past is we're forming a communications team that
18 Merrill Miller is chairing. Communications team, the
19 role of the communications team is to coordinate with
20 the Secretary's Office, the client, to make sure that
21 in a consistent way and in an as efficient way as we
22 can do it, that the actual rollout of this study when
23 it's complete will be, will be done in a way, in, in
24 the way the Secretary wants it, and the way it's most
25 useful to benefit the, the, the Secretary's goals.

1 The, the Committee and the Coordinating
2 Subcommittee are led by industry chairs. Those folks
3 are here.

4 You see how, what those commitments have
5 been. As I mentioned at the outset, we've had
6 unusually high level of, of interest and participation
7 in this study as compared to past studies.

8 Not only are the people represented at this
9 table taking an active role, but we've also had active
10 roles from very heavy, high-level participants as DOI
11 and FERC and other government departments and
12 regulatory bodies. And to that end I think we have a,
13 an excellent team working together, and a lot of
14 resources that haven't been pulled together in the
15 past.

16 As I mentioned a minute ago, because of
17 the, the efforts of not only each of the Supply
18 vice-chairs or the Coordinating Subcommittee
19 vice-chairs, we've brought a very diverse group in
20 under the tent for the first time. We have
21 industrials.

22 We have a good deal of participation in
23 large electrics. The Canadians are involved in a way
24 that they've not been involved in the past, and even
25 the Mexican Government who many of you may remember

1 from the '99 study we were having to deal, we're, we
2 had to deal with with sort of an approach have become
3 more actively engaged.

4 And while we have not gotten all the
5 information that we would have liked to have gotten on
6 the Mexican markets and the Mexican supply side, we
7 know we're developing a dialogue with them that will
8 serve us well over the long haul. Importantly I think
9 the Secretary has asked us, while the scope of the
10 study is, is through 2005, which is a daunting task.

11 For anybody who has sat with models and
12 tried to project or predict these kinds of things, it's
13 hard enough to do it for the next month. But to go out
14 that far is quite daunting. He's asked us to take a
15 look at both near-term and long-term issues of both
16 conventional and nonconventional supplies of natural
17 gas, and other potential supplies, and the outlook for
18 gas-fired power generation to meet future electricity
19 demand, the impact of fuel switching and the
20 infrastructure needs to meet long-term demands.

21 That's a mouthful and a large challenge,
22 and we've taken that on, and I think met each of those,
23 each of those roles. About eight months ago, nine
24 months ago now, we submitted to you a scope of our
25 study, which, as you will remember, said that as part

1 of what we're undertaking and part of what we have
2 undertaken, our methodology, if you will, has been to
3 collect key supply, demand, and operational data, and
4 build the tools necessary to quantify, assess the
5 supply and demand balance in the industry performance
6 requirements to 2025.

7 We're, we will review actual outcome versus
8 projections of, of the 1999 NPC study, and incorporate
9 those learnings into the future work. Bringing forward
10 this work is the very first of this part of, of what we
11 have done. And we made a determination that changing
12 the methodology slightly from, from the work, the way
13 the work was conducted in '99, was important to capture
14 part of the differences that are out there.

15 With respect to supply, we are to
16 comprehensively review the U.S. and Canadian base, as
17 well as potential resources from Mexico, applying
18 economic and commercial criteria to establish a view of
19 producible resources. We are developing and updating a
20 view of the production, of the productive capacity and
21 decline rates, and the industry's ability to meet near-
22 and far-term supply requirements.

23 And we are evaluating additional resources,
24 or re-, I'm sorry, additional sources of supply, and
25 their likely contribution, like LNG and Arctic gas,

1 given the long lead times and the, and the huge capital
2 requirements necessary to bring those on. We're
3 assessing the fleet, feasibility of the activity levels
4 of capital required to bring on new supplies, and to
5 maintain deliverability of conventional resources.

6 We were reminded by Secretary Carde
7 yesterday that that's a key issue, and one that we're
8 taking very seriously. We're assessing environmental
9 and regulatory outlooks, and the impact on development,
10 on development, excluding the effect of limitations on
11 access to the resource.

12 That was the hallmark of the '99 study, and
13 we'll bring that forward and, and I think have new
14 things to talk about in that regard. With respect to
15 demand, we're assessing the North American gas demands
16 under a range of economic growth scenarios.

17 We're evaluating the elasticity of demand
18 price, and the effect of price volatility, and
19 particular, particularly with industrial users; again,
20 another issue that was, I think, brought up and, and
21 emphasized in our meeting yesterday. We're focusing on
22 the likely growth, growth rates for electric power and
23 generation, and the expected contribution from gas,
24 coal, and nuclear, including impacts of changing
25 environmental standards and advancing technology, and

1 infrastructure reliability, another very large task,
2 and one that is going to differentiate this study from
3 past studies in very remarkable ways.

4 We're going to assess the outlook for
5 electric, electric deregulation, and the impact on gas
6 and electric demand, and assess the current and future
7 fuel switching capabilities, including central
8 contributions from alternate energy sources and
9 renewables. We're assessing the environmental and
10 regulatory outlooks, and their impacts on energy,
11 energy and demand growth, including the effect on
12 limitations on access.

13 With respect to the Midstream, we are
14 evaluating the adequacy of existing and planned gas
15 pipeline and storage and distribution networks, and a
16 potential of new gas infrastructure development, with
17 a, a, a, an interest, built-in growth logic built into
18 our models to assess that.

19 We're assessing a key intraregional
20 distribution system requirements. We're assessing
21 pipeline transportation capacity requirements and
22 numerous supply sources, such as Arctic gas and LNG,
23 and looking at the outlook for permitting new LNG
24 terminals, and the realistic timing of available
25 capacity.

1 We're evaluating impact of growing
2 independent power producer, power producer demands on
3 infrastructure, and the ability to meet peak demands
4 and regional time supplies. We're evaluating the
5 interrelationship between the nation's gas pipeline
6 network and the power, and the changing, as I mentioned
7 before, the changing energy and trading markets.

8 We're assessing environmental pipeline
9 safety, and particularly the pipeline integrity
10 initiatives that are sweeping our industry, and the
11 regulatory outlooks and their impact on infrastructure
12 and access. We're looking at market volatility and
13 supply, the infrastructure development.

14 We're, again, we're, we're asked to provide
15 advice on actions that can be taken by industry and
16 government to increase the productivity of natural gas
17 markets, and to ensure adequate and avail-, reliable
18 supplies. Among the things that would obviously need
19 to be considered when we go through that process is the
20 regulatory and legal legislative issues that are before
21 us today, and the industry's ability to respond to the
22 nation's growing energy needs.

23 The interagency efforts to facilitate
24 better communication, reduce overlapping
25 responsibilities in order to accelerate or streamline

1 the review and approval process is obviously very
2 important to that, to that work, as well. In fact,
3 that's one of the issues that we see that, that slows
4 down permitting process and access issues probably more
5 than anything else.

6 As we move forward we've gone through
7 several phases. We, we started this work in earnest
8 about in Sep-, September of 2002.

9 And due to the importance of the policy
10 issues being addressed, we have, we've stepped up what
11 would be, what would be normally, norm-, normally a
12 15-month schedule to try to accomplish what we're doing
13 in a year. That's a very compressed schedule to do the
14 kind of work that we've undertaken.

15 But I, as I said at the outset, the
16 commitment that these gentlemen at this table have made
17 in terms of giving us resources and giving the ability
18 to do this work, there are more than 250 people working
19 on this study right now, and about a hundred companies
20 who have contributed significant time and resources,
21 many of which, many of these individuals are working
22 full-time on this project as we go forward.

23 And I can say that, that many of us are
24 working near full-time on it as well. We started back
25 in August with what you call the organize-, or what I

1 think would be referred to as the organizational phase.

2 We began to organize a staff to study the
3 work and develop a scope of the work that we've
4 provided back to you. September-December time frame
5 we, we chose study support contractors and, and
6 negotiated contracts, and began to figure out exactly
7 how we were going to undertake the work, and, and how,
8 how we would model our work.

9 We, during the whole time, continued to
10 outreach to the Canadian and Mexican Governments, trade
11 associations, and others who have a significant stake
12 or who are significant stakeholders in this work.

13 And, and I think we, we touched base with
14 many of the people in this room as we, we went through
15 that process. At the beginning of this year we really
16 started our, our fact-finding process in earnest, in
17 earnest through a, conducting a number of workshops,
18 both on the supply side and on the, on the demand side.

19 These workshops were done to finalize the
20 sort of nonmodel analysis, give us some real input that
21 we needed to start feeding into the model, on the
22 theory that this is sort of a progressive
23 collaboration. It's -- Once we had gotten that
24 information we all went out and sort of worked
25 independently to begin with.

1 And as we began to come up with findings,
2 and as we began to come up with significant data to
3 feed into the total, collaboration began. And, and
4 then we got to the current time.

5 We are where I would characterize, we're at
6 what I would characterize a reality check. We have
7 done enough work to be able to report to the committee,
8 which we did yesterday.

9 We, we were very -- We tried to really work
10 through what, what, what we are doing, what our process
11 has been, and how we're doing that, and what our scope
12 is going to be. But our findings are just beginning to
13 emerge, so we're quite sketchy in terms of being ready.

14 In terms of what our findings are, more
15 importantly, the important work of the, of the Council
16 that we have in front of us, which is a collaborative
17 effort to start pulling all of our findings together,
18 drawing conclusions, and pulling together the
19 recommendations. Our hope is that between, with the
20 input that we had yesterday from the, from the
21 Committee, and with the work that we have going forward
22 with, in the next months or so, we will be beginning
23 the drafting process, which is always a, a, the
24 interesting part of this process.

25 We hope that in the July, in the

1 July-to-September time frame we will provide each of
2 you with at least a preliminary review of the Executive
3 Summary of what the study's findings and conclusions
4 and recommendations are likely to be. Because of the
5 compressed nature of this work, and because of the
6 Secretary's interest in having this in a timely fashion
7 of, i.e., September at the latest, I would urge each of
8 you to, to move expeditiously to take a hard look at
9 what we're doing.

10 If you have input, be sure and give it to
11 us quickly, because we would like to turn this thing
12 out with anticipated rollout and delivery to the
13 Secretary's Office probably the second or third week in
14 September.

15 Finally, at the direction of the Secretary
16 and others, beginning in September-December time frame,
17 those of us who have turned the crank on the study and
18 who have been involved in it are available to his
19 direction to follow up, address the issues that, that
20 are logically going to be front and center in that
21 September-December time frame. That's where we are on
22 the study.

23 Again want to compliment my colleagues who
24 have worked very tirelessly. We've put an awful lot
25 of time into the work, and we're proud of what we've

1 begun to see is, is a body of work.

2 And we have a lot of work to do, so I'd be
3 glad to take any questions.

4 (Whereupon, no response was had.)

5 MR. LANGDON: Hearing none, thank you.

6 Thank you again, Bill.

7 MR. WISE: Now you can, you can understand
8 from the various descriptions of the scope at what a
9 massive undertaking this has been. And it's, it's not
10 just the 250-plus people representing all of the
11 members of the Council, but it's a number of people
12 from the industrial power sector that are outside the
13 Council that are a significant number that are
14 continuing to contribute.

15 And, and as Jerry indicated, the government
16 agencies, not only Department of Energy, but Interior
17 and FERC and other agencies have put significant
18 manpower and resources into the study. And I think
19 it's going to be one of the most important studies that
20 the NPC has turned out.

21 Deputy Secretary McSlarrow, you've been
22 involved in tracking this thing. Have you got any
23 comments to add at this point?

24 MR. McSLARROW: Bill, thank you. I don't
25 want to get you all off your schedule, so let me just

1 take a few minutes.

2 As the Chief Operating Officer of the
3 Department I probably spend 60 percent of my time
4 worrying about managing the nuclear weapons complex.
5 But interestingly enough, what I actually worry about
6 are these kinds of topics, and the future fuel mix in
7 our country.

8 And I think it's vital what you all are
9 doing, and I really congratulate Jerry and Phil and
10 everybody who's been working on this, what you're doing
11 with this study, because I think it's a great thing
12 that we more or less moved to a free market in natural
13 gas primarily because, I believe, the free market is a
14 great thing every time. But I also think we made some
15 assumptions in the country about what we could do with
16 that commodity.

17 I was asked last night whether or not I
18 thought the American public thought natural gas was
19 cheap, clean, and plentiful. And I would think in
20 terms of the general public the answer to that would be
21 yes, yes, and yes.

22 And the right answer might be sometimes,
23 yes, and who knows? And so I think what we come out
24 with in the study I think will be an important
25 educational thing for the policymakers as well as the

1 market participants.

2 If you look into the future, even with
3 relicensing, we're likely to face a period of time in
4 the middle of the century when nuclear power goes from
5 20 percent of electricity generation to close to zero.
6 On the Hill right now you have a clear-skies
7 legislation, the President's proposal to cap emissions
8 for SO₂, NO_x, and mercury.

9 You have the existing Clean Air Act
10 regulatory regime which will take place if you don't
11 pass clear-skies. You have other proposals up to and
12 including target caps.

13 And in each of those cases what I don't
14 think has been thought through enough, and what this
15 study I think would be a valuable tool to, to use is,
16 is the issue of fuel switching. I think there's,
17 there's a sense out there that we can solve all our
18 problems by just coupling it on the back of the use of
19 natural gas.

20 And it will be an important commodity, no
21 doubt, in our future. But I think we need to be very
22 careful about how we make those kinds of policies and
23 judgments.

24 So I want to congratulate all of you. I
25 mean, I feel the work today is enormous.

1 As I heard you go through all the
2 subgroups, I hadn't really heard all that generation in
3 one place. I really, you really have a large task, and
4 I appreciate your picking it up and running with it.

5 Thank you very much.

6 (Whereupon, applause was had.)

7 MR. WISE: Thank you, Mr. Secretary. And
8 please pass on to Secretary Abraham our thanks for the,
9 his devotion of significant resources from your
10 department for this exercise.

11 It will add a lot of value to the, to the
12 resulting product.

13 Our vice-chairs, Bob and Rich and Lee, have
14 got anything else that you would like to add to this
15 discussion at this point?

16 (Whereupon, no response was had.)

17 MR. WISE: Okay, we'll, we'll move forward.
18 That, this process is following the schedule.

19 Jerry has indicated, and we will be back to
20 the Council as we, as the work nears completion, and,
21 with date and time for the next meeting of the Council.
22 Now the Agenda calls for, for turning to administrative
23 matters.

24 Let me first turn to the Finance Committee.
25 R. G. Dunham chairs that committee.

1 He's not able to be here today, so I'll
2 make a brief report for him as the Finance Committee's
3 representative. Johnson Lambert and Company is our
4 outside independent auditor; reviewed their audit
5 report for calendar year 2002.

6 I'm pleased to report that Johnson Lambert
7 gave us a clean bill of health. Our accounting
8 procedures and controls received high marks and our
9 financial condition, that the Council, for the year
10 ending 2002, was strong.

11 We also reviewed calendar year 2003
12 expenditures to date and projections for the remainder
13 of the year. With the natural gas study in full stride
14 for completion this fall the Committee recommend the
15 calendar year 2003 budget in the amount of \$4,425,000.

16 More than a-third of that amount is for
17 outside contractors associated with natural gas study.
18 We then looked at member contributions to support this
19 budget, and recommended requests of \$3,575,000 from the
20 membership.

21 Given the nonrecurring nature of the gas
22 study costs, gas study costs, we felt that the
23 Committee recommended that the remaining budget funds
24 come out of the contingency fund of the Council.

25 Finally, the Committee recommended the

1 appointment of Johnson Lambrecht for the 2003 audit.
2 That will conclude the Finance Committee report on
3 behalf of R.G. and the Committee, my report, and I move
4 for the adoption to the Council.

5 And do I have a second?

6 (Whereupon, a response was had.)

7 MR. WISE: Okay, all in favor.

8 (Whereupon, a response was had.)

9 MR. WISE: Any nays?

10 (Whereupon, no response was had.)

11 MR. WISE: That's, and that's to R.G.'s
12 group. The next administrative matter is the
13 Nominating Committee. Ray Hunt is chair of that, and
14 I'll turn the mic over to Ray for his report.

15 MR. HUNT: Thanks, Bill.

16 The Nominating Committee met this morning
17 to discharge its responsibility of providing our
18 recommendation to the membership for NPC officers as
19 well as the Chairs, members of the Agenda and the
20 Appointment Committees, and the five at-large members
21 of the NPC co-chairs Coordinating Committee. I'd like
22 to do this in two sections.

23 First, for officers, the Nominating
24 Committee would recommend Bobby Shackouls as our new
25 Chair of the NPC, and Lee Raymond as the Vice-Chair.

1 Mr. Chairman, that's in the form of a Motion.

2 MR. WISE: Do we have a second to the
3 Motion?

4 A MEMBER: Second.

5 THE CHAIR: Okay, any discussion? Anybody
6 opposed?

7 We would ask you to leave the room.

8 All those in favor?

9 (Whereupon, a response was had.)

10 MR. WISE: Any opposed?

11 (Whereupon, no response was had.)

12 MR. HUNT: Democracy's a wonderful thing.
13 Okay, I'd like to do these all in one Motion.

14 For the Agenda Committee the nomination is
15 the Committee would consist of Bob Alison, Bob Catell,
16 Joe Foster, John Fri, Ray Hunt, Rich Kinder, John
17 Miller, Dan Yergin, and Larry Nichols serving as the
18 chairman.

19 The Appointment Committee, the
20 recommendation would be John Alcorn, Don Cash, Linn
21 Draper, Clarence Cazalot, Luke Corbett, Claiborn
22 Deming, Tom Munro, Mike Wiley, Bobby Parker, Diemer
23 True, Lew Ward, with Bob Palmer serving as chair.

24 And the five at-large members the Co-Chairs
25 Coordinaters we would recommend Carl Deming, Bill

1 Greehey, Frank Heintz, Diemer True, and Dave O'Reilly.

2 Mr. Chairman, that's the form of a Motion.

3 MR. WISE: Second the Motion?

4 A MEMBER: Second.

5 MR. WISE: Any discussion?

6 (Whereupon, no response was had.)

7 MR. WISE: All in favor?

8 (Whereupon, a response was had.)

9 MR. WISE: Any nays?

10 (Whereupon, no response was had.)

11 MR. WISE: Thank you.

12 MR. HUNT: That is our report.

13 MR. WISE: Thank you. That would be
14 election of new chairmen.

15 I'd just take this, the opportunity to
16 thank the Council for, for my time as chair. It's been
17 a great privilege to serve as chair of this
18 organization during a time when I, I think the last 12
19 months of which we are in the process of producing, as
20 I indicated, I think all of you will agree, one of the
21 most important studies that, in the United States that
22 the NPC has ever produced, and coming at a very
23 critically important time in the natural gas
24 development, and how it's going to play in the future.

25 It's been a great privilege and an honor

1 for me. And, Bobby, as you solve the natural gas
2 issues in the future, I wish you the best of luck.

3 And you, too, Lee.

4 Let's see. That brings us to the end of
5 the formal agenda.

6 Is there any council members that has
7 anything that he or she wishes to bring before the
8 Council at this time?

9 (Whereupon, no response was had.)

10 MR. WISE: All right. Are there any
11 nonmembers here that wish to be recognized?

12 (Whereupon, no response was had.)

13 MR. WISE: Okay, there being no further
14 Motion, do I, or no further business, do I have a
15 Motion for Adjournment?

16 (Whereupon, a response was had.)

17 MR. WISE: The second?

18 (Whereupon, a response was had.)

19 MR. WISE: Okay, all those in favor, "Aye."

20 (Whereupon, a response was had.)

21 MR. WISE: Any opposed.

22 (Whereupon, no response as had.)

23 MR. WISE: Thank you very much.

24 (Whereupon, at 9:55 a.m. ET the above
25 meeting was concluded.)

1 I certify the foregoing to be a
2 true transcript from my notes.
3

4 E-signature: D. I. Bunn
5

6 _____
7 CSR CP RPR
8

9 CERTIFICATION

10 I, Dorothy I. Bunn, a Registered
11 Professional Reporter, Certified Conference Reporter,
12 and Notary Public, do hereby certify that the foregoing
13 testimony was duly taken and reduced to writing before
14 me at the place and time therein mentioned. I further
15 certify that I am neither related to any of the parties
16 by blood or marriage, nor do I have any interest in the
17 outcome of the above matter.

18 In witness whereof, I have hereunto set
19 my hand and affixed my official seal, at Washington,
20 D.C., USA, this 16th day of May, 2003.

21 E-signature: D. I. Bunn

22 Notary Public

23 My Commission expires November 17, 2003.
24
25